



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

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MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

March 23, 2010

To: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

SACRAMENTO UPDATE

This memorandum provides an update on the gas tax swap legislation signed by the Governor; and an update on the status of two bills which provide exemptions from the California Environmental Quality Act.

Governor Signs Gas Tax Swap Legislation

After initially indicating that he would veto the Legislature's gas tax swap legislation, on March 22, 2010, the Governor signed **ABX8 6 and ABX8 9 (Assembly Budget Committee)**. According to Legislative Counsel in Sacramento, ABX8 6 is effective immediately, and ABX8 9 is effective 12 days after the Governor's signature.

Combined, the bills would eliminate the sales tax on gasoline, replacing it with a 17.3 percent per gallon excise tax increase that would generate an estimated \$2.52 billion annually. Additionally, the sales tax on diesel would be maintained, but increased from 4.75 percent to 6.75 percent starting in FY 2011-12. The increased sales tax on diesel would provide approximately \$350 million per year for transit operators, who would also receive a one-time \$400 million appropriation for the remainder of FY 2009-10. The excise tax on diesel is reduced by an equal amount to ensure revenue neutrality.

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Overall, the gas tax swap package would provide approximately \$1.1 billion in savings to the State for the current budget year, by allowing the State to use excise tax revenue to pay State General Fund transportation bond debt service, among other items, which are expenditures beyond that which Proposition 42 allows. The legislation does not include a statutory requirement for funds to be repaid should the Legislature decide to take or borrow the excise tax revenues from local governments in the future.

In his March 22, 2010, signing message (attached), the Governor indicated:

“Last week, I sent a letter to the Legislature indicating my concerns with the gas tax swap proposed by Assembly Bill X8 6 that resulted in a tax increase on commuter rail services, and the fact that the Legislature provided no tax reductions to help stimulate job growth. Earlier today, the Legislature passed a measure to fix technical problems with the gas tax swap bill and passed two key tax reductions as part of my jobs package. The package of bills as written will provide significant benefit to the state’s general fund and will help put Californians back to work. For these reasons, I am signing these bills.”

The technical legislation referenced above is **AB 183 (Caballero)**, related to a homebuyers tax credit, **SB 70 (Senate Budget and Fiscal Review Committee)**, related to the gas tax swap proposal, and **SB 71 (Padilla)**, a green technology bill.

AB 183, as amended on March 18, 2010, would provide a tax credit against the personal income tax liability of taxpayers who are first time homebuyers or taxpayers who purchase a home that has never been occupied. This measure is awaiting action by the Governor.

SB 70, as amended on March 22, 2010, would revise provisions of the fuel swap to recognize special users of fuel, such as purchasers of diesel fuel for rail or other off-road use. While ABX8 6 would not change the fuel prices for typical consumers, certain fuel users receive tax breaks in current law and would have seen a net increase in taxes under ABX8 6. SB 70 ensures that special users, such as railroads and purchasers of aviation gasoline, will not be adversely affected. This measure also makes other technical and clarifying changes requested by the Board of Equalization. SB 70 is on the Governor’s desk awaiting action.

SB 71, as amended on March 22, 2010, would expand the range of projects which may be approved for a sales tax exclusion to include equipment used to manufacture products that produce energy from alternative sources such as solar, wind, and biomass. This expanded authority is limited to the period ending January 1, 2021. This measure contains an urgency clause, and is on the Governor’s desk awaiting action.

The Los Angeles County Department of Public Works (DPW) indicates that the transportation package would generate approximately \$314.5 million for counties in FY 2010-11 from the excise tax, which would replace eliminated sales tax revenue. DPW indicates the transportation package would provide the department with \$61 million for local streets and roads in FY 2010-11, which is the same amount they would have received through sales tax revenues.

The Department of Public Works indicates that the final package will have no net effect on transportation revenues that the department would have received through sales tax, protected under Proposition 42, but has concerns about the future lack of constitutional protections afforded the new excise tax. Because ABX8 6 and ABX8 9 provide the same level of transportation funding, DPW recommends no position on the overall package. However, due to the lack of constitutional protections for the proposed funding, DPW recommends that the County strongly oppose any efforts by the Legislature to take or borrow counties' and cities' share of gasoline excise tax revenues in the coming months. The California State Association of Counties supported the two bills while expressing concerns with the lack of constitutional protection. The Metropolitan Transportation Authority was neutral on the bill.

Status of County-Interest Legislation

AB 1704 (Jeffries), as introduced on February 1, 2010, which would exempt from the California Environmental Quality Act (CEQA) requirements a project for the installation or replacement of a new pipeline for the distribution of recycled water within an improved public street, highway, or right-of-way, failed passage in the Assembly Natural Resources Committee on March 22, 2010, but was granted reconsideration.

It is supported by the Associated Builders and Contractors of California, Association of California Water Agencies, and Eastern Municipal Water District. It is opposed by many organizations, including American Lung Association, California League of Conservation Voters, Planning and Conservation League, Sierra Club California, and Natural Resources Defense Council.

AB 2165 (Knight), as amended on March 16, 2010, which would exempt the activities or approvals of the High Desert Health System Multi-Service Ambulatory Care Center project from CEQA requirements, was heard in the Assembly Natural Resources Committee on March 22, 2010, but held in Committee at the request of newly appointed Committee Chair Chesbro for the purpose of amendments.

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It is supported by Los Angeles County Supervisor Michael D. Antonovich and opposed by several organizations, including California League of Conservation Voters, Planning and Conservation League, Sierra Club California, and California Coastal Protection Network.

We will continue to keep you advised.

WTF:RA
EW:sb

Attachment

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

To the Members of the California State Assembly:

I am signing Assembly Bill X8 6 and Assembly Bill X8 9.

Last week, I sent a letter to the Legislature indicating my concerns with the gas tax swap proposed by Assembly Bill X8 6 that resulted in a tax increase on commuter rail services, and the fact that the Legislature provided no tax reductions to help stimulate job growth. Earlier today, the Legislature passed a measure to fix technical problems with the gas tax swap bill and passed two key tax reductions as part of my jobs package. The package of bills as written will provide significant benefit to the state's general fund and will help put Californians back to work. For these reasons, I am signing these bills.

I commend the Legislature for acting today on the \$200 million homebuyers' tax credit. This successful program will lower taxes on the sale of both new and existing homes, stimulating the housing industry and creating jobs for thousands of Californians. Similarly, the tax exemption on the purchase of clean-technology manufacturing equipment will spur investment in solar manufacturing, renewable energy, fuel cells and zero-emission vehicles in California, creating jobs and maintaining California's leadership in the field of clean-technology.

I commend the Legislature for your strong bi-partisan actions on these measures. I encourage you to maintain this momentum and ask that before adjourning for Spring Recess the Legislature send me measures to relieve homeowners from tax penalties associated with the sale of their homes in a "short sale," and extend federal tax provisions to renewable energy projects funded with federal stimulus dollars. These two measures are critical and time sensitive. I look forward to working with you to move our state and our economy forward. Thanks for the great work.

Sincerely,

Arnold Schwarzenegger